Listed Private Equity (LPE) Update: The Paradox of Wide Discounts

CITY OF LONDON
Investment Management Company Limited

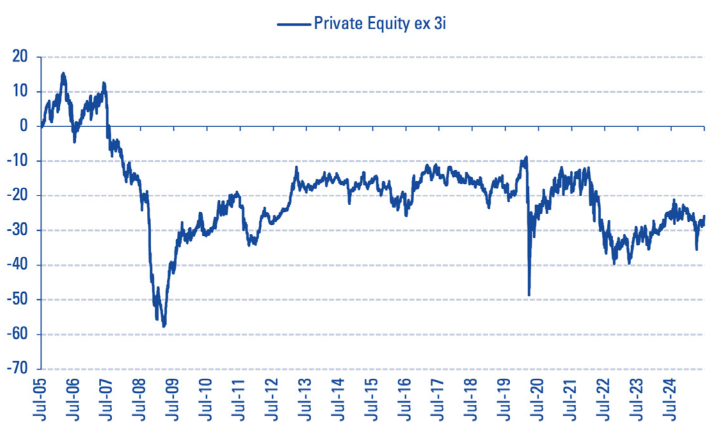
August 2025

Key Takeaways:

- *Listed Private Equity (LPE) provides a solution to resolve the conflict between achieving asset class exposure whilst maintaining liquidity requirements of investment programs.*
- *Discounts across the sector remain compelling relative to historical averages and contradict the improving corporate governance and Capital Allocation Policies (CAPs) adopted across the sector.*
- *CAPs should help address the Supply and Demand imbalance and ARE value enhancing in the short term.*
- *Active portfolio management can help provide excess returns.*
- *LPE can be used in parallel to a traditional drawdown strategy to help manage allocation targets.*

The LPE sector in London, which is comprised of several closed-end funds offering exposure to both buyout and growth equity via direct and fund of funds strategies, is offering exceptional value for investors looking to access private equity via a liquid solution. Chart 1 below shows that LPE discount levels remain close to their widest levels of the last two decades excluding the GFC and covid sell offs. This is paradoxical considering the increase in corporate activity at the closed-end fund level and improving exit environment in the underlying portfolios, which should both lead to narrower discounts.

Chart 1: Listed Private Equity Sector Discount ex 3i 20 years to 30th June 2025[1]

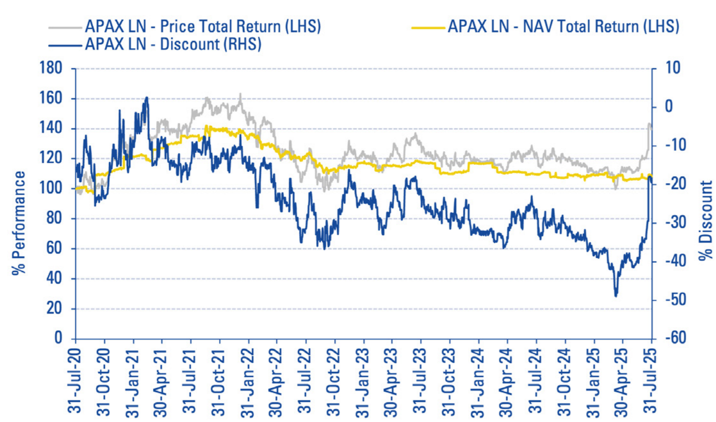


Source: Morningstar

Corporate Activity – A Paradigm Shift

Whilst boards have continued to augment CAPs implemented over the last 2 years in response to the persistent discounts across the sector, July saw a significant announcement from Apax Global Alpha of a bid for the company at a 17% discount to NAV, a premium of approximately 18.8% on the day prior to the announcement and a premium of 30.6% to the volume weighted average price for the previous month. Chart 2 shows the value-enhancing impact for shareholders, as the discount narrowed substantially from the recent low of 49% to approximately 18%. The chart also illustrates why the Board felt compelled to act following a period of lackluster shareholder returns. More importantly we believe this underpins value in the sector.

Chart 2: Apax Global Alpha Price Total Return, NAV Total Return and Discount 5 years to 31st July 2025[2]



Source: Bloomberg, CLIM Research

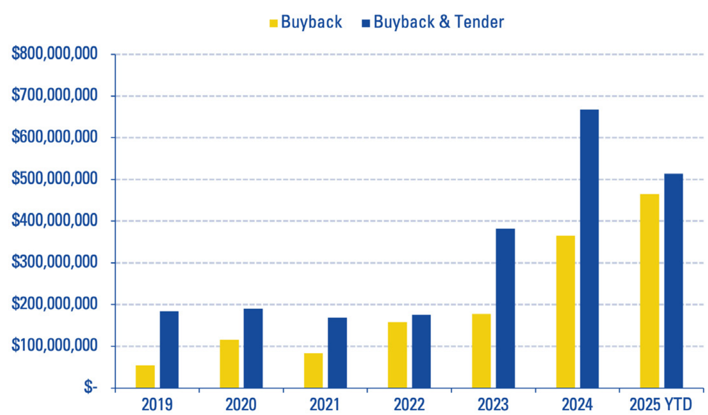
[1] *Discounts are calculated based on cum-income NAVs with debt at fair value. 3i is excluded due to it's large market cap, significant premium to book value, and concentration in one investment which skews performance metrics.*
[2] *This security is representative only and reflects a sample of securities that may be held by a portfolio in the LPE Composite. Actual securities held by a portfolio may vary. The total returns are gross of fees and expenses.*

Buybacks Can Be Value Enhancing

Even if share buybacks are not addressing the Supply and Demand dynamic in the short term, they are value enhancing immediately, boosting NAVs and augmenting beta returns to the asset class as portfolios are bought back at discounts to fair value. Chart 3 illustrates that buybacks in the global Listed Private Equity sector continue to grow each year with 2025 already surpassing calendar year 2024.

According to the latest ICGT Enterprise results[3] for the year ending 31st January 2025, share buybacks have added 2.7% to NAV since October 2022 following the acquisition of £51m worth of shares at a weighted-average discount of 37.5%, whilst HarbourVest Global Private Equity[4] bought back $106m worth of shares in the Financial Year ending in January 2025 boosting its NAV by 1.9%.

Chart 3: Listed Private Equity Buybacks to 31st July 2025[5]



Source: CLIM Reasearch

Given the proliferation of CAPs introduced across the sector, we expect that the pace of share buybacks to increase at current discount levels as realization activity increases in the underlying portfolios. Chart 4 shows the exits announced during 2025, excluding IPOs. Although exits have remained relatively low due to equity market volatility, especially around liberation day, transactions have been taking place at carrying value or higher. IPOs are also showing encouraging signs of a pick-up in the underlying portfolios including high profile cases such as Figma, Wiz Inc and Chime Financial.

Chart 4: Listed Private Equity – Announced Exits During 2025

Company	Fund	Date Announced	Transaction Type	Net proceeds**	Uplift
Datasite	ICGT	22/07/25	Conventional exit	$30m	3%
PCI Pharma Services	PEY	15/07/25	Conventional exit & rollover	€65m	0%
Techem	PEY	14/07/25	Conventional exit & rollover	€21m	0%
vLex	OCI	30/06/25	Conventional exit & rollover	£30m	300%
Minimax	ICGT	16/04/25	Conventional exit & rollover	€39m	0%
smartTrade	HGT	03/04/25	Conventional exit	£30m	0%^
Trackunit	HGT	11/02/25	Partial exit & rollover	£21m	6%

London listed Private Equity Buyout portfolios only
^Estimated based on prior carrying values

Source: Jefferies, Excludes IPOs

Summary

The case to invest in LPE remains very strong

1. Value in LPE remains compelling relative to historical averages.
2. Capital returns including buybacks, dividends and tenders continue to increase and can be value enhancing.
3. Boards are getting more assertive as demonstrated by the Apax Global Alpha transaction.
4. LPE provides liquidity without compromising active returns and helps capture the illiquidity premium.
5. Idiosyncratic excess returns are possible from security selection and active management.
6. More flexible than a semi-liquid structure when allocating and easier to measure performance than a traditional drawn down structure.

[3] *Source: ICG Enterprise Trust full-year results to 31 January 2025*
[4] *Source: HVPE Annual report year ended 31 January 2025*
[5] *Buyback data based on CLIM taxonomy of closed-end funds that primarily invest in privately held businesses with available buyback data. These are predominantly London listed but do include closed-end funds listed in other developed markets.*

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